AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON BIG FIVE FALSE BAY MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Big Five False Bay Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages … to ….

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq*. of the Standard of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Big Five False Bay Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Big Five False Bay Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

10. As disclosed in note 17 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of prior year errors identified and because of the conversion from IMFO to SA Standards of GRAP for the year ended 30 June 2010.

Fruitless and wasteful expenditure

11. As disclosed in note 26 to the financial statements the municipality incurred fruitless and wasteful expenditure of R 617 469 as a result of the overpayment of leases.

Going concern

12. Whilst the municipality has prepared financial statements on a going concern basis, there are indicators that its financial sustainability is under threat as the grants and concomitant assets (investments and cash and bank) are insufficient to support the existence of grants and other liabilities, with a shortfall of R 856 523.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Other information included in the annual report

14. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations, MFMA, DoRA, Local Government Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Municipal Regulations (Regulations – GNR/GN) and financial management (internal control).

Predetermined objectives

17. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance with regulatory and reporting requirements

18. **Incomplete reporting on all predetermined objectives, indicators and targets**

    The annual performance report did not reflect the performance of the municipality and of each service provider, a comparison of the performance with targets set and performances in the previous financial year and measures taken to improve performance as required in terms of Section 46(1)(a) of the MSA.

19. **Inadequate content of integrated development plan**

    Key Performance Indicators (KPI's) contained in the Integrated Development Plan (IDP) do not comply with legislative requirements as required by Regulation 9(1)(a) of the Municipal Planning and Performance Management Regulations.

Usefulness of information

20. The following criteria were used to assess the usefulness of the planned and reported performance:

    - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
    - Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

21. **Incomplete reporting on all predetermined objectives, indicators and targets**
    - Some of the capital projects reflected in the IDP are not included in the annual performance report
    - The progress of some of the capital projects were not reported on in the annual performance report.

22. **Reported information not consistent with planned objectives, indicators and targets**
    - Inconsistencies were identified between the annual performance report and the monthly progress reports.
    - Inconsistencies were noted between the reported information contained in the annual performance report and the IDP.

23. **Planned and reported performance targets not measurable**
    It was identified that some of the development objectives and related performance targets contained in the IDP were inappropriate as the key performance indicators and performance targets are not measurable.

Compliance with laws and regulations

Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)

24. **Expenditure was not paid within the parameters set by the applicable legislation**
    Contrary to the requirements of section 65(2)(e) of the MFMA, the municipal entity did not settle invoices totalling R 222 592 within 30 days of receipt thereof.

25. **The Audit Committee did not meet regularly and did not have the required number of members.**
    Contrary to the requirements of section 166(4)(b) of the MFMA the audit committee only met three times in the financial year as opposed to the required four times and did not have the required three members for all the meetings.

26. **The financial statements were not prepared in accordance with applicable legislation**
    - Contrary to the requirements of section 122(1) and 125 of the MFMA the municipality did not prepare financial statements in accordance with the legislative requirements and did not include all the compulsory disclosures in the financial statements.
    - Contrary to the requirements of section 65(2)(c) of the MFMA the municipality did not have or did not maintain effective, efficient and transparent systems of internal control as required by legislation for creditors and payments.

INTERNAL CONTROL

27. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, DoRA, Municipal Regulations and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

28. The matters reported are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

  The leadership has not exercised adequate oversight to ensure compliance with laws, regulations and internal controls.

- **Financial and performance management**

  Systems are not appropriate to facilitate the preparation of financial statements in accordance with applicable legislation.

- **Governance**

  Inadequate monitoring and reviews were performed to ensure that the entity identifies risks relating to the achievement of financial and performance reporting. Internal controls were not developed to prevent, detect and correct non-compliance, unauthorised expenditure, and fruitless and wasteful expenditure. The audit committee did not meet regularly and did not consist of the required number of members.

Pietermaritzburg

30 November 2010

AUDITOR-GENERAL
SOUTH AFRICA

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